

## How the heck do we implement?

Today's article is collaboration between three strategy gurus from McKinsey and me. About a year ago they send me a lengthy article and I read it with interest. At the time I didn't know what to make of it or how it applied to me or our company. Then, a few days ago Randy Rhodes told me that she found the following:

...Leaders in companies are successful not only because they have superior services or models they push onto their clients, but because they are controversial in a sense. They have formed a strong opinion about something and they stick to it, fill it with life, make it known, write books and articles about it, speak about it and use it to motivate their people. They are not loved by everybody and often polarize. Those who love them can't get enough of them and those who hate them wouldn't ever hire their services. When they get hired though, they can charge higher rates and still make their clients happier than the average provider with many grey, inoffensive views.

We help companies to achieve their goals, develop their leaders, managers and employees and we strongly believe that this has to happen based on a strong strategy that is translated to all members of the organization in a meaningful, understandable way. That's why we use visual maps called everything from Innovation Maps™ to workmaps to Roadmaps. All are pieces of art that help translate the vision that we helped the leaders of the organization to develop. So, how do you get to strategy and vision and what's the deal about it. Here is where our three guru's come in: (text in blue is from McKinsey article Jan 2011)

"What's the next new thing in strategy?" a senior executive recently asked Phil Rosenzweig, a professor in Switzerland. His response was surprising for someone whose career is devoted to advancing the state of the art of strategy: "With all respect, I think that's the wrong question. There's always new stuff out there, and most of it's not very good. Rather than looking for the next musing, it's probably better to be thorough about what we know is true and make sure we do that well."

Exactly. Why reinvent the wheel? We know what vision and strategy are supposed to achieve. Let's get in a room or to a retreat, stick out heads together and begin brainstorming. When we do it using our visual technologies, it goes faster and better and puts the foundation for the translation in place.

What's the relevance of a good strategy and vision, you ask?

All companies operate in markets surrounded by customers, suppliers, competitors, substitutes, and potential entrants, all seeking to advance their own positions. That process, unimpeded, inexorably drives economic surplus—the gap between the return a company earns and its cost of capital—toward zero .

For a company to beat the market by capturing and retaining an economic surplus, there must be an imperfection that stops or at least slows the working of the market. An imperfection controlled by a company is a competitive advantage. These are by definition scarce and fleeting because markets drive reversion to average performance. The best companies are emulated by those in the middle of the pack, and the worst exit or undergo significant reform. As each player responds to and learns from the actions of others, best practice becomes commonplace rather than a market-beating strategy. Good strategies emphasize difference—versus your direct competitors, versus potential substitutes, and versus potential entrants.

To beat the market, therefore, advantages have to be robust and responsive in the face of onrushing market forces. Few companies, in our experience, ask themselves if they are beating the market—the pressures of “just playing along” seem intense enough. But playing along can feel safer than it is. Weaker contenders win surprisingly often in war when they deploy a divergent strategy, and the same is true in business.

So our role is to help update strategy and vision for those who haven't done it in a while, using our visual technologies and approaches. When currently weaker contenders want to gain market share we are ready to help them, again bringing our visual ideas and proven methods to full advantage.

Companies need to... know their competitive advantage, and have answered the question of why they make money (and vice versa). Competitive advantage stems from two sources of scarcity: positional advantages and special capabilities. Positional advantages are rooted in structurally attractive markets. By definition, such advantages favor incumbents: they create an asymmetry between those inside and those outside high walls. For example, in Australia, two beer makers control 95 percent of the market and enjoy triple the margins of US brewers.

For most of our clients and best suited for the help we can provide special capabilities scarce resources whose possession confers unique benefits are the main advantage. The most obvious resources, such as drug patents or leases on mineral deposits, are called “privileged, tradable assets”: they can be bought and sold. A second category of special capabilities, “distinctive competencies,” consists of things a company does particularly well, such as innovating or managing stakeholders. These capabilities can be just as powerful in creating advantage but cannot be easily traded.

Just sitting on one's historic successes is not a solution and especially does not allow for success in the future. Just look at companies like Apple. They reinvented themselves at least 5 times in the last 30 years. If you wait too long it can be too late to mount a strategically effective response, let alone shape the change to your advantage. Managers typically delay action, held back by sunk costs, an unwillingness to cannibalize a legacy business, or an attachment to yesterday's formula for success. The cost of delay is steep: consider the plight of major travel agency chains slow to understand the power of online intermediaries.

In implementing any new strategy, it's imperative to define clearly what you are moving from and where you are moving to with respect to your company's business model, organization, and capabilities.

That is where we come in and provide the tools and models and approaches that allow to stay ahead or catch back up to where the company needs to be.

We help to develop a detailed view of the shifts required to make the move, and ensure that processes and mechanisms, for which individual executives must be accountable, are in place to effect the changes. Quite simply, this is an action plan. Everyone needs to know what to do. Be sure that each major “from-to shift” is matched with the energy to make it happen.

If it is created in a visual form and supported by experiential tools as we do it for our clients, success is inevitable. If you like this idea, let us know. If you hate it, there are probably others who give you the typical binders to be put on a shelf and forgotten – for a lot of money – it's really your choice!

Chris Bradley is a principal in McKinsey's Sydney office, Martin Hirt is a director in the McKinsey Taipei office, and Sven Smit is a director in the McKinsey Amsterdam office.

Axel Meierhoefer  
CEO of AMC LLC and Innovision Global LLC